

LAKE IMPROVEMENTS COMMISSION

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SCHEDULE OF FINDINGS

JUNE 30, 2014

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LAKE IMPROVEMENTS COMMISSION

BOARD OF DIRECTORS

NAME

David Walker
Sara Huddleston
Don Altena
Paul Merten
Gary Lalone
Steve Roth
Kathy Pomrenke

REPRESENTING

City of Storm Lake
City of Storm Lake
Buena Vista County
Buena Vista County
Lake Preservation Association
Lake Preservation Association
City of Lakeside

APPOINTED OFFICIALS

NAME

James Patrick
Justin Yarosevich

TITLE

Commission Administrator
Commission Secretary/Treasurer

HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

Board of Directors
Lake Improvements Commission
Storm Lake, IA 50588

Report on the Financial Statements

We have audited the accompanying financial statement of the Lake Improvements Commission as of and for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Lake Improvements Commission as of June 30, 2014, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

The other information, Management's Discussion and Analysis on pages 6 through 8, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2015 on our consideration of the Lake Improvements Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Lake Improvements Commission's internal control over financial reporting and compliance.

Humphman, Putzier & Co., PLLC

January 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Lake Improvements Commission (Commission) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the commission's financial statements, which follow.

FINANCIAL HIGHLIGHTS

The Commission's receipts increased approximately \$174,000 from fiscal 2013 to fiscal 2014, primarily due to an increase in grant receipts.

The Commission's disbursements increased approximately \$770,000 from fiscal 2013 to fiscal 2014, primarily due to the expansion of the northeast spoil site.

Cash basis net assets decreased approximately \$669,000 from June 30, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

The Commission has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenue, expenses and the related assets and liabilities. Under the Commission's cash basis of accounting, revenue and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the Lake Improvements Commission's basic financial statement. This annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Commission's financial activities.

The Statement of Activities and Net Position - Cash Basis presents information about the governmental activities of the Commission as a whole and presents an overall view of the Commission's finances.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Commission's receipts and disbursements and whether the Commission's cash basis financial position has improved or deteriorated as a result of the year's activities.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statement.

FINANCIAL ANALYSIS OF THE COMMISSION

Statement of Receipts, Disbursements, and Changes in Cash Balance

The purpose of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balance is to present the receipts received and the disbursements paid by the Commission. The statement also presents a fiscal snapshot of the cash balance at year end. Over time, readers of the financial statement are able to determine the Agency's cash basis financial position by analyzing the increase and decrease in cash balance. A summary of cash receipts, disbursements, and changes in cash balance for the years ended June 30, 2014 and 2013 is presented below.

	<u>Cash Receipts, Disbursements and Changes in Cash Balance</u>	
	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
<u>Receipts:</u>		
Use of money and property	18,967	18,067
Intergovernmental	838,376	639,903
Miscellaneous	131	25,000
	<u>\$ 857,474</u>	<u>\$ 682,970</u>
<u>Disbursements:</u>		
Equipment operations	116,363	143,218
Equipment repairs	72,354	39,939
Insurance	41,001	43,411
Contractual services	229,539	195,052
Supplies	52,211	62,886
Capital outlay	<u>1,015,409</u>	<u>272,188</u>
Total disbursements	<u>1,526,877</u>	<u>756,694</u>
Net change in cash balance	(669,403)	(73,724)
Cash balance beginning of year	<u>1,668,891</u>	<u>1,742,615</u>
Cash balance end of year	<u>\$ 999,488</u>	<u>\$ 1,668,891</u>

In fiscal year 2014, receipts increased \$174,504 or 26% due primarily due to an increase in funding from the State.

In fiscal year 2014, disbursements increased by \$770,184 or 102%. The increase was primarily due to the expansion of the northeast spoil sight during the current year.

FINANCIAL ANALYSIS OF THE COMMISSION – (continued)

Net asset serve as a useful indicator of financial position. The Commission's cash balance decreased \$669,404 from a year ago. The analysis that follows focuses on the changes in cash balance.

Changes in Cash Basis Net Position

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts:		
Operating grants and contributions	838,507	664,903
General receipts:		
Unrestricted investment earnings	5,655	4,755
Rent	13,312	13,312
Miscellaneous	-	-
	<u>857,474</u>	<u>682,970</u>
Disbursements		
General operations	<u>1,526,877</u>	<u>756,694</u>
Change in cash basis net position	(669,403)	(73,724)
Cash basis net position beginning of year	<u>1,668,891</u>	<u>1,742,615</u>
Cash basis net position end of year	<u>\$ 999,488</u>	<u>\$ 1,668,891</u>

LONG-TERM DEBT

At June 30, 2014, the Commission had no outstanding debt.

ECONOMIC FACTORS

The current condition of the economy in the state continues to be a concern for Commission officials because operations are contingent on the continued support from federal, state and/or local government. Some of the realities that may potentially become challenges for the Commission to meet are:

- Equipment requires constant maintenance and upkeep.
- Increased fuel costs and operational costs.
- Cash flow issues because of the dependence on contributions and timeliness of state and/or local assistance.

The Commission anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Commission's ability to react to unknown issues

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lake Improvements Commission, City of Storm Lake, Iowa, by phone at (712) 732-8000 or by email at justin@stormlake.org.

LAKE IMPROVEMENTS COMMISSION
STATEMENT OF ACTIVITIES AND NET POSITION – CASH BASIS
JUNE 30, 2014

Exhibit A

		Program Receipts	Net Disbursements
	Disbursements	Operating Grants and Contributions	and Changes in Cash Basis Net Position
Governmental activities	\$ 1,526,877	\$ 838,507	\$ (688,370)
General receipts:			
Interest on investments			5,655
Rent			13,312
			<u>18,967</u>
Change in cash basis net position			(669,403)
Cash basis net position beginning of year			<u>1,668,891</u>
Cash basis net position end of year			<u>\$ 999,488</u>
Cash Basis net position:			
Unrestricted			<u>\$ 999,488</u>

See notes to the financial statement.

LAKE IMPROVEMENTS COMMISSION
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
YEAR ENDED JUNE 30, 2014

Exhibit B

Receipts:

Use of money and property:

Interest on investments	\$ 5,655
Rent	13,312
	<u>18,967</u>

Intergovernmental:

State Grants	790,672
Contributions - local governments	47,704
	<u>838,376</u>

Miscellaneous:

Contributions - other	131
Total receipts	<u>857,474</u>

Disbursements:

Equipment operations	116,363
Equipment repairs	72,354
Insurance	41,001
Contractual services	229,539
Supplies	52,211
Capital outlay	1,015,409
Total disbursements	<u>1,526,877</u>

Change in cash balances	(669,403)
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Cash balances, beginning of year	<u>1,668,891</u>
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Cash balances, end of year	<u><u>\$ 999,488</u></u>
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Cash Basis fund balances

Unrestricted	<u><u>\$ 999,488</u></u>
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See notes to the financial statement.

LAKE IMPROVEMENTS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of Significant Accounting Policies

The Lake Improvements Commission (Commission) was formed in November 2002, pursuant to the provisions of Chapter 28E of the Code of Iowa. The primary purpose of the Commission is to finance and effect a continued dredging of Storm Lake to enhance the use of the lake for water recreation, to promote fishing and to guarantee the continued existence of this natural water resource. The secondary purpose is to identify and promote water quality/watershed projects to improve the water quality of the lake and minimize the re-accumulation of silt.

Members of the Commission consist of the City of Storm Lake, Iowa, the City of Lakeside, Iowa, Buena Vista County, Iowa, and the Lake Preservation Association for Storm Lake, Inc. (a nonprofit organization). The governing body of the Commission is comprised of one representative from the City of Lakeside and two representatives from each of the other members. The Commission is financially dependent upon member contributions.

A. Reporting Entity

For financial reporting purposes, the Commission has included all funds, organizations, agencies, boards, commissions, and authorities. The Commission has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Commission. The Commission has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Commission are organized as a governmental fund. Governmental fund activities are supported by intergovernmental revenue and other operating grants. The Commission has a general operating fund, and all receipts are accounted for in this fund. From this fund are paid the general operating disbursements, fixed charges, and capital improvement costs. All net assets are considered unrestricted.

C. Basis of Accounting

The Commission maintains its financial records on the basis of cash receipts and disbursements, and the financial statement of the Commission is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statement does not present the financial position and results of operation of the Commission in accordance with accounting principles generally accepted in the United States of America.

D. Budget Information

The Lake Improvements Commission is not legally required to adopt a budget.

LAKE IMPROVEMENTS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

2. Deposits and Investments

The Commission's deposits at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Commission is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Commission; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

3. Risk Management

According to the 28E Agreement, the Commission purchases and maintains general liability insurance covering all operations and public officials' liability insurance on behalf of its Board of Directors.

4. Related Party Transactions

The Commission uses a dredge and associated equipment purchased by Buena Vista County. The Commission does not pay for the use of these items. The commission estimates the fair value of the use of the equipment to be \$30,000.

5. Litigation

The Commission is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. Commission officials believe the outcome of these matters will not have a material adverse effect on the Commission's financial statements.

HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

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JASON K. RAVELING
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards

To the Members of
Lake Improvements Commission
Storm Lake, IA 50588

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the Lake Improvements Commission as of and for the year ended June 30, 2014, and the related notes to financial statement, and have issued our report thereon dated January 31, 2015. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Lake Improvements Commission's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lake Improvements Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lake Improvements Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Commission's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item A to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lake Improvements Commission's Responses to Findings

The Commission's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 31, 2015

Hungelman Patzler & Co., PLLC

LAKE IMPROVEMENTS COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Findings Related to the Financial Statement:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- A. Financial Reporting – During our audit, we noted the Commission does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the cash basis of accounting. As is inherent in many organizations of this size, the Commission has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply the cash basis of accounting in preparing the financial statements and the related disclosures.

Recommendation – The Commission should consider obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

Response – The Commission will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

1. Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
2. Travel Expense - No disbursements of money for travel expenses of spouses of Commission officials or employees were noted.
3. Commission Minutes - No transactions were found that we believe should have been included in the Commission minutes but were not.
4. Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 128 and 12C of the Code of Iowa. The Commission's deposits and investments are held by the City of Storm Lake and included in the City's depository resolution.